

Social Impact Bond: new finance or new procurement?

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Abstract

Over the last years, the Social Impact Bond (SIB) model has emerged as a new and innovative way for financing social programs. This paper aims to understand under what circumstances the use of Social Impact Bonds (SIB) may be considered a feasible mean in financing social services. Therefore, the analysis has considered two aspects, which may affect the design and implementation of a Social Impact Bond: the specific needs of a policy maker in organizing the provision of social services and the social problem the services intend to tackle.

After having (a) identified the motivations, which coexist in triggering the creation of a SIB and (b) several dimensions, which characterize the SIB design, the paper, provides a review of the cases in which the SIB model has been already applied, exploring the specific configuration employed.

Then, the study investigates the relationship between (c) how a SIB has been designed and the motivations that have triggered its development; (d) how a SIB has been designed and the social issue the SIB tries to solve. Lastly, from the prevalence of a particular outline in a social sector, it may be possible to infer if it is a common driver, which has led to consider the use of a new instrument in delivering the services to solve this particular social issue.

Keywords: social impact bond, impact investing, social services, public procurement, case study

Relevant Stream: *Impact Investing - Cases, Instruments, Players, Social and Financial Risk and Returns*

1. INTRODUCTION

Over the last years, the Social Impact Bond (SIB) model has emerged as a new and innovative way for financing social programs, introducing a new type of public-private partnership to provide social (goods and) services (Jackson, 2013; Nicholls & Tomkinson, 2013).

Since the first SIB Pilot (HMP Peterborough Social Impact Bond) was launched in UK in 2010, twenty-five SIBs have been commissioned in different areas, including U.S., Australia, Canada, Belgium, the Netherlands and Germany (Social Finance, 2014; G8 Social Impact Investment Taskforce, 2014) and eight of them are currently in operation (OCSE, 2014; Instiglio, 2014). Moreover, many countries, such as Ireland, Israel, Korea, Japan, France, Italy and Scotland are showing growing interest towards this model, and a few international organizations (e.g. U.K. Department for International development; Instiglio; Inter-American Development Bank) are evaluating the use of the SIB paradigm to fund projects in Developing Countries such as India, Columbia, Mozambique, Uganda.

The interest in this approach stems from different trends that have characterized the last decade. On the one hand, the financial crisis of 2008 has led to two contrasting dynamics: the emergence of new and increasingly acute social needs, often linked to the decrease of families' income and the growing level of unemployment, and the call for policies oriented to reduce public spending in order to contain public debt and deficit (Vis et al., 2011; Karanikolos et al., 2013; Harisaloa & McInerney, 2008). This situation determined an urgent need to modify the public approach in delivering or purchasing social services, making policy makers to look at third sector organizations as well as private sector companies, as viable outsourcers, with a potential of being more efficient and effective than their public sector counterparts (Allen, 2009; Millar, 2012). On the other hand, the financial market is witnessing the rise of a new breed of investors willing to pursue intentionally social impact alongside the financial return (Bugg-Levine & Emerson, 2011). New instruments have been conceived to target this category of investors, namely "social investment" or "social impact investment",

that, broadly speaking, refer to a monetary investment in initiatives whose a primary purpose is social, that ensures to the investor a financial return while delivering social services (Kingston & Bolton, 2004; Mulgan et al, 2010).

In this context, the SIB model, as a form of social impact investing, started to be looked at as a possible answer to the problem of funding service delivery through an instrument able to foster efficiency, effectiveness and innovation (Fox & Albertson, 2011). Policy makers in several countries claimed for an increased use of SIBs and highlighted the need of creating an adequate ecosystem to enhance the use of these instruments (G8 Social Impact Investment Taskforce, 2014).

However, despite their growing diffusion and the positive reaction of policy makers at the international level, it is worthy of noticing that SIBs cannot, and do not aim to, substitute traditional methods to finance social projects, and their feasibility and effectiveness can vary from case to case (Mulgan et al., 2010; Moynagh, 2010; Liebman, 2011; Fox & Albertson, 2012). From this perspective, a thoughtful analysis is still missing, leading to the objectives of this paper.

This paper aims to understand under what circumstances – which social issue and which public sector requirement – the use of Social Impact Bonds (SIB) may be considered a feasible means in financing social services. In particular, the objective of the paper is twofold. First, the paper aims at providing a review of the cases in which the SIB model has been already applied, exploring the specific configuration employed (in terms of actors, financing structure, degree of innovation in the funded program). Second, the paper aims to analyze how the SIB model may answer to the specific needs a policy maker identifies in structuring the provision of social services (i.e. increasing available funding, engaging with more effective providers, reshaping the partnership between public and private actors, increasing the support to social entrepreneurship initiatives...).

To answer to these objectives, we first briefly define what social impact bonds are, discussing pros and cons generally associated to their adoption (Section 2) and we outline the research approach (Section 3). Then, we revise the existing SIB experiences at the international level, analysing the configurations adopted, and linking these configurations to the societal challenge it intends to tackle and to the drivers for adoption (Section 4). Finally, we conclude in Section 5, discussing the implications of this work from a policy and academic perspective.

2. SOCIAL IMPACT BONDS

In spite of their name, Social Impact Bonds are not bonds in the conventional sense (Warner, 2013). They can be better defined as hybrid instruments with elements of both equity and debt (Liebman, 2011; Bolton and Savell, 2010). In details, SIBs represent a financing mechanism aimed to fund preventive interventions relying on an outcome-based contract. In this model, investors, through a financial intermediary, pay for a certain social service aimed to reach an outcome that is of interest to a government commissioner. If the provided services do produce the agreed results, the government commissioner repays the investors for their initial investment plus a return for the financial risks they took. If not, the investors lose their investment. Hence, SIBs are characterized by three distinguishing features: (1) focus on preventive interventions; (2) adoption of a Payment by Result contract; (3) development of a complex stakeholders network, including public and private organizations.

In the reference model, the government commissioner enters a contract with a private financing intermediary (i.e. the bond issuing organization), which agrees to provide up front capital to finance the delivery of a preventive social programs by service providers with a proven track. The intermediary obtains operating funds by raising capital from one or more non-government, private investors; it uses the funds to contract with the service providers, supporting a specific intervention. An independent assessor is in charge of defining the evaluation methodology and assessing and reporting on the target outcomes. Then, the

public sector is required to repay the intermediary only if the intervention is successful, i.e. the social program accomplishes certain pre-defined and agreed social outcomes. In case of success, the intermediary, then, returns principal plus interest to investors. On the contrary, if the outcomes are not reached the investors do not recover their investment (Liebman, 2011; Fox & Albertson, 2012; Warner, 2013).

This articulation is at the basis of some significant advantages of the SIB model compared to traditional methods to finance social services. First, the SIB model does not rely on Government or contractors for covering up-front costs of service provision, because this is up to the financial intermediaries that raise funds from different types of investors. In this way, SIBs overcome, at least partially, the problem of constraints to the public funding and free service providers, in particular third sector organizations, from the need of performing fundraising activities (Mulgan, 2010; Fox & Alberston, 2011; Warner, 2013).

Second, the SIB model redesigns the relationships between partners involved in the commissioning of social services (Nicholls & Tomkinson, 2013; Palandjian & Hughes, 2014) and contribute to align the interests of multiple stakeholders with different backgrounds and mandates - government commissioners, third sector organizations, private organizations, financial intermediaries, investors (Nicholls & Tomkinson, 2013; Charlton et al., 2013). Thanks to this new network of relationships, SIBs can foster innovation, by leaving service providers free to design new initiatives to achieve the expected social outcome, by exploiting synergies between different actors, by reconfiguring the structure of service delivery, by creating opportunities of cross-fertilization between different sectors of the public administration (Jackson, 2013; Social Finance, 2012).

On the other hand, SIB model's opponents have underlined several challenges involved in the adoption of this instrument. First, the fundamental underpinning mechanism of SIB, i.e. the measurement of results, rises some concerns since it could make delivery organizations to focus on those services whose outcomes determines payments (Disley & Rubin, 2014) because are easier to measure or are more likely to succeed (Fox & Albertson, 2011).

Furthermore, establishing a casual link between the intervention and its outcome is generally complex and stakeholders are incentivized to manipulate outcomes measures (Liebman, 2011; Jackson, 2013). Finally this scheme could favor larger organizations “at the expense of small, local and distinctive ones” (Dominey, 2012) by choosing those projects with proven track record since they can more likely ensure large and certain social returns, in order to limit the private investors’ risk (Fox & Alberston, 2012).

Also on the public agency side, the realization of cashable savings for the public agencies is contingent upon several factors and results may not be clearly ascribable to one single agency’s budget (Fox & Alberston, 2011; Nicholls & Tomkinson, 2013). Furthermore, the cost of capital of private investors is higher than government’s one and the complexity and expensiveness of this partnership may be not counterbalanced by enough benefits, making easier for public administrations to directly finance social programs (Mulgan et al., 2011).

Hence, in the end, given the above-mentioned requirements of SIB model to be applied, few programs and populations could really have the necessary conditions for the SIB model to be applied (Jackson, 2013; Mulgan et al., 2011).

3. DESIGN AND METHODOLOGY

The purpose of this work is to investigate under which circumstances the SIB scheme may be successfully employed to finance social services. Hence, moving from the presentation of the pros and cons of the application of the SIB model, carried out in the previous paragraph, we now introduce the research approach, discussing how the review of the SIB experiences is carried out and how empirical material is analysed.

The methodology is articulated into four steps steps: (1) mapping of the SIB experiences implemented so far; (2) identification of the potential drivers at the basis of the choice of a public commissioner to develop a SIB; (3) definition of the dimensions that can be used to characterize a SIB configuration; (4) analysis of SIB experiences) analysis of SIB experiences in order to single out any regular configuration pattern and to identify if such

regularities are somehow related to the social issue addressed or to the different drivers that motivated the promotion of a SIB pilot project.

3.1 Mapping of SIB experiences

The first step consists in the identification of the SIBs experiences implemented so far. To this aim, the mapping performed by Social Finance (Social Finance, 2014c) was used as a starting point since this body is generally considered a reference organization at the international level. This initial mapping was completed through the analysis of other influential sources, including academic and practitioners literature such as consulting companies reports, technical working group and non governmental organization active in this field¹ and press releases. This process allowed identifying 6 further cases for whom it was possible to collect adequate information concerning the SIB structure². In details, we added two cases from Israel; three more cases from U.S.; one more case from the UK. The output of this process is reported in Table 1, that provides an exhaustive representation of SIB projects already in place or in the process of being implemented worldwide till February 2015. It includes 31³ SIBs that have been initiated between 2010 and 2015 in eight countries (UK, U.S., Australia, Canada, Belgium, Netherlands, Israel and Germany) and that are currently in different stage of development.

Please Insert Table 1 here

3.2 Driver for SIB development

¹ Instiglio, Social Ventures Australia, McKinsey, Payforsuccess.org, Social Impact Bond Technical Assistance Lab, Emma Tomkinson, Social Impact Investment Taskforce.

² For this reason, we excluded from the analysis the SIB launched in Portugal (February 2015) and the seven SIBs launched (mid-March 2015) by UK Cabinet Office to help disadvantaged young people, children in care and those with long term health conditions and mental illness.

³ However, in the analysis, we decide to consider the DWP Innovation Fund for Young People as one case even if it consists of 10 SIBs.

The second step consists in the identification of the drivers (reasons to adopt) that can explain the choice of developing a SIB, based on a review of the academic and practitioners' literature. The examination of the benefits appointed to the SIB scheme by the literature (Social Finance, 2014a; Jackson, 2013) and of the expectations emerging from the public releases of the pioneering experiences (Nicholls & Tomkinson, 2013; Olson, 2012) has allowed to identify some recurring arguments which have been translated in three main drivers.

The first driver is the collection of additional funding for supporting the provision of additional services. A public sector commissioner can decide to appeal to private financing to overcome the lack of public funding and budgeting constraints (Jackson, 2013; Fox & Albertson, 2012).

The second driver is the attempt to increase efficiency in using public resources and effectiveness in delivering social services. A public sector commissioner can choose to exploit the SIB structure in order to implement a financing mechanism that, being based on a payment by result contract fosters efficiency in the provision of social services, since it allows to fund just what works (Liebman, 2011). This goes beyond the traditional rationale of public procurement in order to reengineering, and thus increase the efficiency, of the public expenditure supply chain. At the same time, the commissioner may be driven by the opportunity to engage just with effective service providers and, even more, to enhance their effectiveness by giving them the possibility to experiment with highly innovative methods in social service delivery (Social Finance, 2009).

The last driver is more supply-side oriented and refers to the possibility of offering new return opportunities for private investors (Mulgan, 2011). In this case, the focus is on the private sector, typically institutional or mainstream investors. The funding of social services is a market that has not previously been considered and that is now seen as a fertile field in terms of obtaining investment return, especially if compared to other traditional sectors already squeezed.

3.3 SIB configurations

The second step consists in the identification of the dimensions that allow characterizing a SIB experience, again based on a review of the academic and practitioners literature. To this aim, we refer to eight design dimensions that allow characterizing a SIB experience, again based on a review of the academic and practitioners literature:

1. *Coverage of a social issue*: this dimension refers to if and how a social issue is already addressed by existing services provided by the public sector. In particular, a SIB can address an area that is (1) uncovered by the public offerings, due to a lack of resources, (2) uncovered by public offerings, since it is not a statutory service or (3) covered by the public offerings, with poor outcomes or poor outreach.
2. *Innovation of the program*: this dimension describes the features of the social intervention financed by the SIB. A SIB can fund (1) a program that is totally new ; (2) the implementation of a program, whose underpinning principles (e.g. a specific therapy) have already been tested with a positive outcome, but it has not been implemented yet; (3) the expansion of an existing program that has already been implemented in prior cases.
3. *Target area*: this dimension specifies the geographical area targeted by a SIB. In details, an intervention funded by a SIB can be implemented at (1) local (city) level, (2) regional (county, State) level, (3) country level (nationwide).
4. *Nature of the promoter*: this dimension illustrates whether the SIB has been promoted by (1) public administrations at different government levels (State/National, Regional, Local...) or by (2) private organizations.
5. *Involvement of the commissioner*: this dimension addresses the role of the commissioner towards service providers and its level of control over the organizations involved in the SIB. This can result in a high (1) or low level (2) of involvement.

6. *Flexibility of the delivery structure*: this dimension deals with the relationship between service providers and between service provider/s and the intermediary. The interactions among actors can lead to (1) flexible and collaborative arrangements, (2) well-established boundaries and collaborative relationship (3) well-established boundaries and limited possibilities to activate collaborative processes among public and private operators (2).
7. *Risk allocation*: this dimension refers to the allocation of risk between the organizations involved in a SIB. In this connection, risk can be (1) bore by private investors or (2) can be distributed among different actors (public and private) through capital protection measures and risk sharing arrangements.
8. *Distribution of potential savings*: this dimension addresses the relationship between the potential savings generated by the intervention and the outcome payments made by the commissioner. It is important to understand if the cost savings generated by a SIB can be directly accrued to (1) one single Department, contributing to reduce a specific cost item, (2) more than one Departments, contributing to reduce a set of well defined cost items, (3) the overall community, but without a specific link to a precise cost item.

3.4 Analysis of SIB experiences

The third step consists in the analysis of the existing SIB experiences in the global scenario according to the above dimensions. The experiences analyzed⁴ include 22⁵ SIBs in eight countries (UK, U.S., Australia, Canada, Belgium, Netherlands, Israel and Germany) in different stage of development.

Data analysis is aimed at identifying possible relationships between the configuration chosen in each SIB, and (1) the social issue which it tries to solve (sectoral specificity); and (2) one or more drivers that have triggered its development.

⁴ Considering the mapping done by Social Finance as the most updated so far, the list analyzed in this study encompasses also: two cases from Israel; three more cases from U.S; one more case from the UK.

⁵ We decide to consider the DWP Innovation Fund for Young People as one case even if it consists of 10 SIBs.

To this aim, we first verify the coherence between a specific SIB configuration and a certain social issue, verifying if some configurations are recurrent in a certain field. The basic idea is to try and address the question: “Has a SIB taken this precise shape due to the inherent characteristics of the social problem it wants to address?” Coherently with this purpose, the analysis of SIB cases has been organized in fields of application, i.e. the social issue the program funded by the SIB intends to tackle.

Second, we explore the consistency between each SIB configuration and the drivers for adoption. Indeed, at the base of the analysis, there is the hypothesis that all the above-mentioned drivers, and many others, coexist in triggering the creation of a SIB. Thus, we want to understand if the configuration of each SIB experience, resulting from the involved actors’ choice on the different design dimensions, could better fulfill the needs linked to one specific driver.

In the next section, we outline the results of the analysis, in terms of adherence of the SIB experiences to the prototypal model and identification of the design dimensions that present higher variability.

4. FINDINGS

In this section, we outline the results of the analysis of the SIB experiences, based on the framework introduced in the previous section.

SIB pilots have touched many different areas, such as criminal justice, homeless, children and family care, education, unemployment and health, with significant points of contact among different cases.

First, the analysis highlights that SIBs are mostly used not to substitute another form of procurement for a specific social service; rather, they are intended to fund services in a previously uncovered social area, typically serving a target group which does not receive statutory services (e.g. health) or which, due to their specific features, is particularly expensive and difficult to help (e.g. unemployment). Furthermore, these experiences are

mostly implemented on a small scale, in specific areas such as cities or regions (just two cases in the UK are nationwide or some U.S. SIBs target an entire federal state).

Second, in most of the analyzed cases, the public sector is still the promoter of the use of a SIB. Indeed, we have identified just one case promoted by the not for profit sector and one from private investors (i.e. commercial banks). In addition, considering the relationship between the commissioning strategy and the distribution of potential savings there is a prevalence of what we call a *vertical perspective*. It means that just one department or agency, usually the one in charge of the chosen social area, participates in the SIB despite the fact that the wider benefits that the social service funded by SIB may produce can be potentially enjoyed also by many other public agencies.

Lastly, the financial structure is sometimes arranged in order to extend the sharing of the risk to either the service provider or the commissioner. It is common that other SIB's actors beyond the private investors allocate some capital to fund the social intervention or bind their return (e.g. the fees of the intermediary) to the achievement of the social outcomes.

Table 2 summarizes the findings of the review of cases. It reports (1) the dimensions, which have been the most enlightening in analyzing the field; (2) the presence of recurrent configurations; (3) if the recurrent design dimensions have been affected by the inherent features of the desired social outcome; and, lastly, (4) if the employed configuration is consistent with the needs associated to a specific driver.

Please Insert *Table 2*

As follows the presentation of the results is organized by field of application in order to highlight similarities and differences within a certain field .

4.1 Social Fields Analysis

4.1. Criminal Justice

The analysis of existing experiences highlights a recurrent configuration of SIB in the criminal justice sector. SIBs in this field generally address a new program, with an ad hoc social intervention, which has its main strength in ensuring a high level of customization on the user's need. The HMP Peterborough SIB, for instance, aims to build an individual action plan designed on each prisoner's needs. In the Rikers Island SIB, the implemented intervention is a supplement to the regular academic program provided to adolescents in jail by the public sector and it employs an innovative therapy already successfully tested in other fields.

To this purpose, the delivery structure is configured as a network of different service providers, which are willing to collaborate and combine the different core activities in order to create an innovative intervention. Within this network, the intermediary plays a leading role in overseeing project implementation, arranging project funding, distributing funds and managing repayment to funders. This is extremely evident in the HMP Peterborough SIB, where several actors are integrated under a unique "umbrella" program, named One Service, which engages different local service providers and a local manager. The latter is in charge of avoiding the rise of governance issues and assessing whether provided services meet the needs of the cohort members (Disley et al., 2014). This arrangement has been shaped to allow each providers to use its core competencies and activities to handle a precise step in the rehabilitation process. In the Rikers Island SIB, though there is not a unique umbrella, the delivery structure is based on a strong collaboration between the staff of the two not for profit providers and public agencies.

Another significant aspect of the SIB experiences in criminal justice relates the involvement of public commissioner, that changes in the cases analyzed. In both U.S. SIBs, the public commissioner plays a strong role in the commissioning and designing phase of SIB by advocating new solutions from third sector organizations through a Request of Responses (Juvenile Justice Pay for Success Initiative) and it has appointed both the intermediary and the social program to implement. Instead, in the HMP Peterborough SIB, the public

commissioner has not even chosen the service providers and it has no direct relationship with any of them (Disley et al., 2014). However, in all three SIBs, the role of the intermediary is crucial. The extreme example is that of Massachusetts SIB where the intermediary organization shares the risk by binding part of its fees to the achievement of results.

The choice of this configuration is apparently informed by the nature of the social issue that the intervention aims to solve. In both countries, UK and U.S., despite the previous effort, the reoffending rate has deemed still very high (Social Finance, 2011e; Fox & Albertson, 2011). The Government has eventually recognized the rehabilitation of offenders as a complex and multifaceted problem that can be unlikely fulfilled by the government alone or by one single service provider (Fox & Alberston, 2011). Therefore, it has become clear that the implementation of new additional services is not enough, but it needs a paradigm shift towards structurally integrated efforts that help to tackle the root causes of the problem.

The specific configuration of these three dimensions – *innovation of the program, flexibility of the delivery structure and involvement of public commissioner* – enables a greater flexibility of the intervention in terms of changing the program structure to answer to the user's need and leaving the provider free to choose the right means to reach the agreed outcome. This opportunity answers to the need of public sector of shifting the paradigm of procurement from processes to outcomes (Fox & Albertson, 2011; Rees, 2013) and foster efficiency in the use taxpayers' money which can be used to finance just "what works". In addition, especially the design of UK and New York SIB allows exploring new forms of engagement with and between the service providers, fulfilling the need of selecting effective service providers and of deploying money just in successful programs.

We can conclude that in the criminal justice field the instrument of SIB has been actually thought and consequently structured in order to reform the provision and funding of social programs.

4.2 Rough Sleeping

Despite several points of contact, the SIBs, which try to solve the problem of rough sleeping, do not present a recurring configuration. As follows, we discuss the main dimensions that are particularly interesting for this SIBs, highlighting different design choices made in case analysed.

The first dimension is the *coverage of the social issue*. It has strongly affected the structure of London SIB, since the local authority has realized that the outline of existing services – which is very fragmented because the interventions are offered by the different boroughs of London (Social Finance, 2012) – inhibits their effectiveness. Therefore, the poor outcomes in helping rough sleepers have been ascribed to a mismatch between the characteristics of the social problem and the design of the existing social services. The SIB has been looked at as a possible way to enact a coordination structure for the existing services improving the matching between service provision and the users' needs (Social Finance, 2012).

The second relevant dimension is the *innovation of the program*, which helps in highlighting the level of customization of the service provided to the users' needs. The London SIB is based exactly on the idea of providing an individualized support to users to enable them to access to existing services. In this case, no additional service has been implemented to tackle rough sleeping, but the program helps rough sleepers to choose the “right mix” of offered services and access to them. On the other hand, in the SIB implemented in Massachusetts is more evident the desire to adopt a “preventive approach”, since it finances the expansion of a program based on the “Housing First” model, already implemented by The Massachusetts Housing and Shelter Alliance.

A first point of contact between different SIBs in this field is the *strong role played by the public commissioner*. These SIBs are part of a broader action of the public sector (*The Mayor's Rough Sleeping Commissioning Framework* as for London SIB and *Massachusetts Social Innovation Financing*). The Great London Authority has entered into a contract directly with one of the service provider, whereas the Commonwealth of Massachusetts has issued a competitive process to procure both the intermediary and the service providers separately.

Another point of contact is the structure of risk allocation of these SIBs: in both the cases, the service provider shares the risk with the investors by providing a part of the capital.

In conclusion, the SIBs in this field are not structured according to a common design. However, both the configurations seem to be able to fulfill the needs embedded in the same driver – i.e. increasing efficiency and effectiveness in the provision of social services.

Indeed, the SIB commissioned by the Greater London Authority, created explicitly to coordinate and systemize the existing programs and service providers, made the provision chain more effective. The Massachusetts SIB may pave the path for a new and more effective model of public-private engagement, given the way in which the government arranged the commissioning process – issuing an open and competitive request of solutions from third sector organizations and appointing a service provider which is also the lead intermediary and shares part of the risk.

4.3 Family and children care

The social issue relating to children's care and their relationship with family has received much attention as target of outcome-based contracts, with high variations in the specific configurations adopted. In particular, the *entity that promotes the SIB* varies from case to case and there are also two SIBs promoted by organizations other than a public sector agency. *Benevolent Society Social Benefit Bond* has been promoted by private entities⁶ and *It's all about me Adoption Bond* has been created and led entirely by the voluntary sector.

These two are the only SIBs exceeding the recurring configuration, which instead characterizes all the other SIBs in this area. These latter are those SIBs that *are supported by a public entity and target the problem of children at risk of care*.

The SIBs in this sector mainly consist in the expansion, in terms of outreach, or replication of an existing program, sometimes in the form of building new physical infrastructures (Newpin

⁶ In this SIB structure, the service provider, Benevolent Society, partners with two commercial banks, Westpac Institutional Bank and Commonwealth Bank of Australia; therefore, the model has been practically arranged and issued by the banks and it is structured more like an actual bond, with capital protection measures in place to lower private investor risk.

NSW Social Benefit Bond and Saskatoon SIB). The examples of *Newpin NSW Social Benefit Bond* and the *Saskatoon SIB* in Canada are particularly illustrative of this dimension.

The *delivery structure* involves a direct relationship between the public commissioner and the service provider (e.g. *Newpin NSW Social Benefit Bond*, *Manchester City Council Children in Care SIB* and *Saskatoon SIB*). Furthermore, the *public commissioner appears to be the lead actor in these SIB experiences*, contributing in different ways. It provides a financial guarantee to lower the risk and pays part of the costs the service provider incurs through a standing charge (*Newpin SBB*); it presents the SIB as a component of a broader public strategy (*Essex City Council SIB*); or it commits dedicated staff and officers of the organization to the project (*Manchester City Council SIB*). This choice can be explained with the need of managing this specific social service locally, thus the prominent role of the local authorities.

The resulting outline, in the end, seems to reflect the interests of local authorities to overcome capital constrains. On one hand, this configuration allows to exploit a new source of capital, incrementing the available funding of the *local authority* to support the execution of new preventive programs (aiming the avoid children enter into residential care) whose efficacy has in some way already been tested. On the other hand, it allows the public authority to maintain control over the service provision, without huge changes to the provision chain (considering the direct relationship with service providers, in one case even in the form of the payment a standing charge for the service).

On the contrary, the two SIBs that exceed the prevalent design reflect a different situation. *It's all about me Bond* was born in order to try to overturn the mainstream logic of adoption, hence it is not really comparable with the other SIBs. Instead, the *Benevolent Society SIB's* configuration is linked to the leading role played by the two banks, confirming that the nature of actors which lead the promotion of the SIB may affected its final structure.

4.4 Education

In the field of education, there are three SIB experiences: the *Utah School Readiness Initiative SIB* (and a similar new example in Chicago) and *Israel Dropout rates from higher education*.

However, the comparability of these cases is limited by the fact they intervene to solve two very different concerns – pre-school readiness and school dropout, adopting a different configuration.

As concerns the *innovation of the program*, the Utah SIB provides the funds to expand the outreach of a program that, despite the presence of a further demand (many children remained on waiting lists), has so far operated just on a small scale, in a public district school, due to the lack of capital. Whereas, the Israelian SIB, aiming to reduce dropout rate in higher education, addresses a category of services – supporting services in higher education – that typically falls outside the government duties.

As for the *involvement of public commissioner and flexibility of the delivery structure*, in the first two cases (Utah and Chicago SIBs), the program is directly delivered in public schools and there is an intermediary (United Way of Salt Lake and IFF) in charge of managing the repayment to investors. While, in the second case, the public commissioner is just indirectly involved through the academic institution⁷; indeed, the payments to investors rely upon the increased income which the university earns from the additional fees of students which remain enrolled thanks to services financed by the SIB.

Therefore, considering the *innovation of the program* and the *flexibility of the delivery structure*, the configurations of SIBs implemented so far in the education sector do not bring any relevant innovations in terms of restructuring the service delivery model; they just provide additional funding to enable to delivery of services.

4.5 Unemployment

⁷ It is still unknown if they will be all public or a mix of private and public.

The social issue relating to unemployment has witnessed the highest number (fifteen out of thirty-one) of SIB experiences.

In this field, the analysis highlights two main configurations: the first one aimed to increase the funding available and the second one aimed to innovate the social service provision chain.

As for the first group, the funded interventions (*nature of the program*) are typically the expansion of already implemented programs (New York State Social Impact Partnership, Duo for a Job SIB) or new programs carried out by successful and established service providers (Buzzineclub SIB, Juvat SIB, Bristol Together SIB, DWP Innovation Fund SIB). Moreover, they are all implemented at a local level (city or region).

In the *delivery structure*, there have been little attempts to innovate: for example, the service provider *Duo for a Job* acts also as the intermediary; or in two cases, the service providers - *Buzzineclub* and *Bristol Together* - are configured as an enterprise, which generates a yield if the program is successful (Tomkinson, 2014; Triodos Bank, 2013).

Another feature worthy of being highlighted concerns the *coverage of the social issue*. These cases mainly target specific vulnerable categories such as migrants, ex-prisoners, young at risk of disadvantage, “Not in Education, Employment or Training” young ...), whose needs are typically expensive and difficult to serve. Hence, these SIBs intervene in a social area left uncovered by the public sector due to the specific needs of these groups.

The second group of SIBs (DWP Innovation Fund SIB and Juvat SIB) shows some elements, which can potentially spur innovation in the delivery of social services. Though they share the feature of targeting specific vulnerable groups, they introduce an innovative engagement model with service providers (*flexibility of the delivery structure*). DWP Innovation Fund is relies on an open competition based on a list of payable outcomes published by the DWP, bidders can “pick and mix from this list” and they can propose the payments associated to each proxy outcome (UK Cabinet Office, 2013). In this way, the SIB

has been able to exploit several innovative social investment models (Social Finance, 2013b): within the same project, the commissioner has experimented three different ways of engaging with the service provider - single investor, multiple investor and intermediary models. The Juvat SIB engages four service providers “brought together target group-specific program modules” from different social areas (Juvat, SIB Fact Sheet). Moreover, just non-profit financiers invest in the project.

To sum up, in the first stream, all SIBs are designed to collect funds to expand or implement services that target a group of unemployed people with peculiar needs not addressed by other public initiatives. In front of the progressive budget cutbacks, public commissioners are pushed to contract with not for profit service providers, which already have the expertise to deal with a specific group of unemployed people using up front capital from private investors. In this way, they collect funds to serve these specific groups and save the capital which should have been used to develop additional competencies.

On the other hand, the second group introduces different arrangements whereby public and nonprofit organizations work together. In this way, the DWP Innovation Fund SIB, which has succeed in engaging several service providers, employing an ad hoc model for each one, proves the ability of the SIB scheme to test innovative models in the funding and provision of social services.

4.2.6 Health

SIBs in the health field are generally aimed to intervene on the causes of a disease to prevent its appearance and, thus, avoid emergency health cost for the public sector.

As for the *innovation of the program*, the SIB mechanism helps to implement previously non-existing preventive programs that aim to tackle the causes of a specific disease, whose duties and funds are diverted from remedial services. For example, the *Israel Type 2 Diabetes SIB* aims to fund a program to promote a healthy life style between high-risk pre-diabetic individuals.

This is particularly interesting, since in these cases, the causal nexus between the effects of the intervention and the potential *savings* is quite simple, because savings are linked to the avoided disease-related medical expenses and emergency treatment.

Lastly, in both cases, the public sector does not appear as the driving force of the SIB - even if this assumption may be biased by limited availability of information about these experiences.

The health sector itself seems a fertile area for the application of the SIB model in particular considering the preventive nature associated to the SIB structure. Indeed, for some diseases it is quite easy to identify the factors that cause them, and consequently intervene on them. However, the State is not required to provide this kind of services and, given the budget constraints, it is not even willing.

Finally, considering the relative simplicity in accounting the savings for the public agency and that no other relevant changes have been arranged, the SIBs just allow the State to provide a service, which instead would not be delivered, and at the same time save some money thanks to those preventive interventions.

5. CONCLUSION

The diffusion of SIBs has been relatively slow, especially when compared to the hype surrounding these instruments all around the world. This witnesses, on the one side, the great fascination and potential of such financial arrangement but on the other side the very many hurdles and constraints that generate concerns among public administrators.

Therefore, this paper aims to investigate the drivers of adoption, taking into consideration different features of the program, both related to the specific configuration of the financial and procurement scheme and to the external conditions that motivated the experimentation of SIB programs, such as the nature of the social issue tackled or the shortage of public finance. Then, the second related question that we face is whether the emergence the adopted design is somehow sector-specific or not.

The scant empirical data collected in this paper are certainly not enough to fully answer these questions, but we are able to offer some evidence that might be useful to potential SIB developers.

First, the investigation has allowed identifying some external elements that affect the design of SIB configuration. The first factor taken in consideration has been the social problem that the intervention, funded through the SIB, wants to address. In this sense, the review of SIBs experiences enacted worldwide reveals that the *inherent characteristics* and the *pre-existing level of coverage* of the social problems contribute to shape the SIB configuration. Furthermore, just two fields show a variance in terms of ability of SIB's design to fulfill the needs of a specific driver (*care of children* and *unemployment*). This finding support the hypothesis that SIB configuration is highly affected by the social issue it wants to solve. However, the differences in terms of actors involved and specific objectives make it difficult to claim for a mis-design.

The second aspect that has been analyzed is the coherence between the configuration and the needs associated with one of three identified drivers: collection of additional funding, increasing the efficiency in using public resources and effectiveness in the delivery of social services and find a return opportunity for private investors. The analysis of existing SIBs discloses that the prevailing structure, in the different fields, is rarely able to fulfill the need to improve or revolutionize the provision chain of social services; rather, in the major part of fields, the design allow to implement new services or expand the program of service providers with proven track record. This reminds back the concern about the balance between the advantages of SIB and its complexity and expensiveness. Does it make sense for policy makers to employ this instrument since they cannot exploit the benefits of going beyond the traditional logic of public procurement for reengineering, and thus increasing the efficiency, of the public expenditure supply chain?

Considering the ultimate objective of this paper – to investigate under what circumstances the SIB can be used by the policy makers as a feasible mean to finance social services – the findings from the previous two steps tell that two elements mostly should be taken into

account in deciding to use a SIB or not: the inherent features of the *social issue* chosen by the policy makers; and *what kind of actors* have been involved.

Therefore, this work provides a critical overview of SIB market that, despite being preliminary, allows advising SIB promoters about critical aspect to take into account in the structuring process of a SIB. First, they should set their expectations towards the employment of this new instrument from the beginning; the above presented drivers are just three examples out of a broad range of possibilities. Second, they should carefully evaluate the social field in which implemented the SIB; and, third, they should consider which players involve or are already involved. These factors, highly affecting the SIB structure, also condition their level of control over the provision of services.

The paper contributes to a stream of literature which is still very scanty, a large part of the debate having been developed by practitioners and belongs to grey literature. Besides providing a comprehensive and illustrative survey of the few seminal experiences at world level, this paper highlights important unresolved issues that might affect the diffusion pattern of Social Impact Bonds.

Finally we conclude, discussing the paths for future research. As mentioned above, given the infancy phase of SIB market in terms of number of experiences and reliable data, this study should be considered just an explorative work that would like to pave the path for future research on larger scale when, and if, more data will be available. In addition, it should be important continue to monitor the diffusion of SIBs over time and to verify if the prototypical configuration will be refined thanks to a “learning by doing” effect. Lastly, it would be interesting to deepen the already emerging country-specific influences by doing a cross-country analysis in order to understand how much the peculiarities of a country in terms of legal, economic, political and cultural background affected the design of SIB.

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Table 1: Analyzed SIB experiences.

#	SIB NAME	SECTOR	COUNTRY	YEAR	DURATION	INVESTOR TOTAL [§]
1	HMP Peterborough	Criminal justice	UK	2010	8 years	\$ 7,6
2	Rikers Island	Criminal justice	U.S.	2012	4 years	\$ 9,6
3	Juvenile Justice Pay for Success Initiative	Criminal justice	U.S.	2014	7 years	\$ 21,3
4	Street Impact	Rough sleeping	UK	2012	3 years	\$ 7,6
5	Chronic Homeless - Social Innovation Financing MA	Rough sleeping	U.S.	2014	6 years	\$ 3,5
6	Resilient Families Service SBB	Children and family care	AU	2013	5 years	\$ 9,2
7	Newpin NSW SBB	Children and family care	AU	2013	7 years	\$ 6,4
8	It's all about me Bond	Children and family care	UK	2013	10 years	GBP 2
9	Manchester City Council Children in Care	Children and family care	UK	2014	8 years	GBP 1,2
10	Essex County Council	Children and family care	UK	2012	8 years	GBP 3,1
11	Saskatchewan	Children and family care	CA	2014	5 years	\$ 1
12	Utah School Readiness Initiative	Education	U.S.	2013	7 years	\$ 7
13	Dropout rates from higher	Education	ISRAEL	//	4 years	//

[§] Millions.

	education					
14	Chicago Child Parent Center	Education	U.S.	2014	4 years	\$ 17
15	DWP Innovation Fund for Young People 10 SIBs	Unemployment	UK	2012	3 years	GBP 10
16	New York State Social Impact Partnership	Unemployment	U.S.	2013	5,5 years	\$ 13,5
17	Employment for young migrants Duo for a Job	Unemployment	BELGIUM	2014	3 years	€ 0,234
18	Buzinezzclub	Unemployment	NETHERLANDS	2014	2 years	€ 0,680
19	Juvat	Unemployment	DE	2013	2 years	//
20	Bristol together	Unemployment	UK	2012	5 years	GBP 1
21	Type 2 Diabetes	Health	ISRAEL	//	1 year	//
22	Fresno Asthma	Health	U.S.	2013	2 year (demonstration project)	\$ 1,1

Table 2: Results from the SIBs' analysis.

SECTOR	RELEVANT DIMENSIONS	IS THERE A REGULAR PATTERN IN DESIGN?	DOES THE SOCIAL ISSUE AFFECT THE DESIGN?	FULFILLMENT OF ONE DRIVER'S NEED
CRIMINAL JUSTICE	<ul style="list-style-type: none"> Innovation of the program Flexibility of delivery structure Involvement of commissioner 	YES	YES <i>Causes relates different aspects of human life and services pertaining to different social areas</i>	Increase efficiency
				Increase efficiency
				Increase efficiency
ROUGH SLEEPING	<ul style="list-style-type: none"> Coverage of the social issue Innovation of the program Involvement of commissioner Risk Allocation 	NO	YES <i>Causes relates different aspects of human life and services pertaining to different social areas</i>	Increase efficiency
				Increase efficiency
CHILDREN AND FAMILY CARE	<ul style="list-style-type: none"> Nature of promoter Innovation of the program Flexibility of the delivery structure Involvement of commissioner 	YES <i>(for those commissioned by a public entity)</i>	YES <i>Commissioned by local authority</i>	New return opportunities for private investors
				Increase efficiency
				Collection of additional funding
				Collection of

				additional funding
				Collection of additional funding
				Collection of additional funding
EDUCATION	<ul style="list-style-type: none"> • Innovation of the program • Flexibility of the delivery structure • Involvement of commissioner 	NO <i>(Not comparable)</i>	NO	Collection of additional funding
				Collection of additional funding
				Collection of additional funding
UNEMPLOYMENT	<ul style="list-style-type: none"> • Innovation of the program • Coverage of the social issue • Involvement of commissioner • Flexibility of delivery structure • Risk allocation 	YES <i>(Target specific vulnerable group of un-employers)</i>	YES <i>Some groups have particular needs that is more difficult to serve</i>	Increase efficiency
				Collection of additional funding
				Collection of additional funding
				Collection of additional funding
				Increase efficiency
				Collection of additional funding
HEALTH	<ul style="list-style-type: none"> • Innovation of the program • Coverage of the social issue • Distribution of savings • Involvement of commissioner 	YES <i>(Intervene on the causes of a disease to prevent its appearance and thus emergency health cost)</i>	YES <i>It's easier to identify specific aspects which cause the disease</i>	Collection of additional funding
				Collection of additional funding

Annex 1: characteristics of the configuration of a Social Impact Bond.

#	GENERAL INFORMATION			SOCIAL ISSUE AND INTERVENTION			SIB GOVERNANCE		SIB STRUCTURE		
	SIB	COUNTRY	SOCIAL ISSUE	COVERAGE OF THE SOCIAL ISSUE	INNOVATION OF THE PROGRAM	TARGET AREA	NATURE OF PROMOTER	INVOLVEMENT OF COMMISSIONER	FLEXIBILITY OF DELIVERY STRUCTURE	RISK ALLOCATION	DISTRIBUTION OF POTENTIAL SAVINGS
1	HM Peterborough	UK	CRIMINAL JUSTICE	Uncovered since it is not a statutory service	New program	Local	Public – National Level	Low level of involvement	Flexible and collaborative	All risk on investors	Intermediate
2	Rikers Island	US	CRIMINAL JUSTICE	Area left uncovered by the public sector offerings	New program	Local	Public – Local Level	High level of involvement	Flexible and collaborative	Presence of capital protection measures	Intermediate
3	Juvenile Justice Pay for Success Initiative	US	CRIMINAL JUSTICE	Area left uncovered by the public sector offerings	Expansion of the existing program of a service provider	Local	Public – State Level	High level of involvement	Stand-alone program	Presence of capital protection measures and risk sharing arrangements	Intermediate
4	Street Impact	UK	ROUGH SLEEPING	Covered by the public offerings, but with very poor outcomes	New program	Local	Public – Local and National Level	High level of involvement	Flexible and collaborative	Presence of risk sharing arrangements	Indirect
5	Chronic Homeless - Social Innovation Financing	US	ROUGH SLEEPING	Uncovered by the public offerings	Expansion of the existing program of a service provider	Regional	Public – State Level	High level of involvement	Stand-alone program	Presence of capital protection measures	Indirect
6	Resilient Families Service SBB	AU	FAMILY AND CHILDREN	Covered by the public offerings, but with very poor outcomes	New program	Regional	Private entities	High level of involvement	Stand-alone program	Presence of capital protection measures	Direct
8	It's all about me	UK	FAMILY AND CHILDREN	Covered by the public offerings, but with very poor outcomes	New program	Nationwide	Private entities (Not for profit)	Low level of involvement	Flexible and collaborative	All risk on investors	Direct
9	Manchester City Council Children in Care	UK	FAMILY AND CHILDREN	Uncovered by the public offerings	Implementation of a program already proven successful	Regional	Public – Local Level	High level of involvement	Stand-alone program	All risk on investors	Direct
10	Essex County Council	UK	FAMILY AND CHILDREN	Uncovered by the public offerings	Implementation of a program already proven successful	Regional	Public – Local Level	High level of involvement	Flexible and collaborative	All risk on investors	Direct

11	Saskatchewan	CANADA	FAMILY AND CHILDREN	Covered by the public offerings, but with very poor outcomes	Expansion of an existing program	Local	Public – State Level	High level of involvement	Stand-alone program	All risk on investors	Direct
12	Utah School Readiness Initiative	US	PRE SCHOOL EDUCATION	Covered by the public offerings, but with very poor outreach	Expansion of an existing program	Local	Public – State Level	Low level of involvement	Stand-alone program	Presence of capital protection measures	Indirect
13	Chicago Child-Parent Center	US	PRE SCHOOL EDUCATION	Covered by the public offerings, but with very poor outreach	Expansion of existing program	Local	Public- Local Level	High level of involvement	Stand-alone program	Presence of capital protection measures	Indirect
14	Drop out rates from higher education	IS	HIGHER EDUCATION	Uncovered since it is not a statutory service	New program	UNKNOWN	Private entities	Low level of involvement	Flexible and collaborative	All risk on investors	Indirect
15	DWP Innovation Fund for Young People 10 SIBs	UK	UNEMPLOYEMENT	Covered by the public offerings, but with very poor outcomes	New program	Nationwide	Public – National Level	High level of involvement	Flexible and collaborative	All risk on investors	Intermediate
16	New York State Social Impact Partnership	US	UNEMPLOYEMENT	Uncovered by the public offerings	Expansion of an existing program	Local	Public – State Level	Low level of involvement	Stand-alone program	Presence of capital protection measures	Intermediate
17	Employment for young migrants Duo for a Job	BELGIUM	UNEMPLOYEMENT	Uncovered by the public offerings	Expansion of an existing program	Local	Public – Local Level	Low level of involvement	Stand-alone program	All risk on investors	Intermediate
18	Buzinezzclub	NETHERLANDS	UNEMPLOYEMENT	Uncovered by the public offerings	New program	Local	Public- Local Level	High level of involvement	Stand-alone program	Presence of risk sharing arrangements	Indirect
19	Juvat	GERMANY	UNEMPLOYEMENT	Uncovered by the public offerings	New program	Local	Public – Local Level	ND	Flexible and collaborative	All risk on investors	Intermediate
21	Type 2 Diabetes	IS	HEALTH	Uncovered since it is not a statutory service	New program	ND	Private entity	ND	Stand-alone program	ND	Direct
22	Fresno Asthma	US	HEALTH	Uncovered since it is not a statutory service	New program	Local	Private entity	ND	Stand-alone program	ND	Direct